



STATE EFFORTS TO ACQUIRE FEDERAL FUNDING

**From The Office Of State Auditor
Claire McCaskill**

State agencies have not pursued all available federal funding opportunities resulting in potential lost funding of nearly \$3.5 million.

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PERFORMANCE AUDIT



Office of
Missouri State Auditor
Claire McCaskill

May 2004

Missouri is Missing Out on Some Federal Funds Which Require No State Match

This audit reviewed how well various state agencies identified and applied for available federal funding. State agencies received \$7.9 billion in federal funds in fiscal year 2003 either for state programs or to pass through to school districts and other local entities. Auditors identified 28 grants states other than Missouri had received and followed up with Missouri agencies to see if they applied for them. The total funding awarded for each grant ranged from \$1.5 million to more than \$35 million. The following highlights our findings.

State agencies could have received federal grants worth up to \$3.5 million

Auditors identified 5 grant programs worth up to \$3.5 million in funding that state agencies did not receive. Agencies lost the opportunity to receive these funds because they were not aware of the grants. (See page 3)

Methods for identifying grant awards need improvement

Written procedures for identifying and maximizing federal funding opportunities are not always provided and are inconsistent throughout state government. In addition, many state agencies have assigned the task of identifying grant opportunities as another duty for employees who have many other job responsibilities. (See page 4)

Statewide revenue maximization contracts are under utilized

In 2002, the Office of Administration contracted with two companies to help agencies identify federal revenue enhancement opportunities. However, only 4 agencies have used the contracts. Officials from 18 of 43 state entities indicated they were not aware of the contracts. As of January 2004, five revenue maximization projects (involving four agencies) were in progress under one of the contracts. At that time no projects had been completed. (See page 5)

Budget shortfalls lead to loss of extra federal money

Some agencies have lost at least \$4.7 million in federal grant funding for fiscal years 2004 and 2005 because the state match was not available due to budget cuts. For example, the Department of Natural Resources lost state matching funds from its budget for a coal mining grant, resulting in a loss of \$414,188 in federal funds. This cut meant Missouri no longer operated a full coal program, which led federal officials to stop funding Missouri's abandoned mine program and an additional loss of \$1.7 million in federal funds. (See page 6)

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CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Bob Holden, Governor
and
Jacquelyn D. White, Commissioner
Office of Administration
Jefferson City, MO 65101

During fiscal year 2003, \$7.9 billion of the state's nearly \$19 billion total expenditures were paid for from federal funding. The objectives of this audit were to (1) determine if the state is identifying and applying for the maximum amount of federal funding it is eligible to receive; (2) evaluate the policies, procedures, and practices state agencies use to identify and apply for federal funding; and (3) identify factors that hinder the state's pursuit of federal funding.

Our analysis determined (1) state agencies have not pursued all available federal funding opportunities resulting in lost funding of nearly \$3.5 million in fiscal years 2001 to 2003, (2) the state does not have an effective method for identifying potential grant awards, and (3) General Revenue Fund budget constraints have reduced state resources available for matching funds. Additionally, state agencies have not used statewide contracts provided to help identify available federal funding.

We conducted the audit in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such tests of the procedures and records as were considered appropriate under the circumstances.

Claire McCaskill
State Auditor

The following auditors contributed to this report:

Director of Audits:	William D. Miller, CIA, CGFM
Audit Manager:	Donna Christian, CPA, CGFM
In-Charge Auditor:	Sharon Eagleburger, CPA
Audit Staff:	Rachel Simons

RESULTS AND RECOMMENDATIONS

The State Has Not Received All Potential Federal Funds

During fiscal years 2001 to 2003, the state did not apply for nearly \$3.5 million in federal grant money because state agencies were not aware of the grants. Nearly \$3.1 million (89 percent) of this federal funding did not require state matching funds. Consequently, this funding could have been obtained with no impact to the state's General Revenue Fund. The attention given to seeking federal grant money varied among the state agencies examined. Most agencies assigned the task of identifying federal funds as an additional duty to staff members which subjected the task to competing priorities. In 2002, the Office of Administration (OA) entered into contracts with two companies to identify federal revenue enhancement opportunities and made the service available to all agencies. However, only 4 agencies have used the contracts and officials from 18 of 43¹ state entities claimed they were not aware of the contracts.

Background

State agencies received approximately \$7.9 and \$7.2 billion in federal funding in fiscal years 2003 and 2002, respectively, to help fund state programs or to pass through to school districts and other local entities. Some funds are provided for the federal share of ongoing state-federal programs such as Medicaid, highway construction, and special education, while other federal funds are received as one-time grants to accomplish specific objectives.

In an effort to establish a single contact for federal funding information, the Missouri Federal Assistance Clearinghouse (clearinghouse) was created in 1983. Presidential Executive Order 12372 allows states to designate an entity to act as a Single Point of Contact (SPOC). The SPOC provides an opportunity for state agencies, regional planning commission/councils of governments and local governments to research and comment on grant applications, direct federal development and environmental assessments, and impact statements before they are funded or approved. The clearinghouse is currently part of the Office of Administration, Deputy Commissioner's Office. The clearinghouse only reviews the limited number of programs which federal agencies have indicated are eligible under Executive Order 12372. Since its inception, the clearinghouse has experienced a reduction in staff and the work that could be done due to budgetary constraints.

Each state agency uses various methods to identify federal grants, including notification from federal agencies, Internet websites, the Catalog of Federal Domestic Assistance (CFDA), the Federal Register, magazine publications, training, and networking. The agencies may use all or some of the mentioned methods.

Audit Methodology

We reviewed agency policies and procedures for identifying grants and interviewed department officials. We used the Federal Assistance Award Data System (federal data system) managed by

¹ For 4 of the 18 entities whose officials were not aware of the contracts, the Office of Administration does not have purchasing authority.

the U.S. Census Bureau as a tool to identify grants the state was not receiving. The federal data system documents the majority of federal grant awards flowing to states and territories. This source was not being used by the agencies we surveyed. We looked for grants other states were receiving which Missouri was not. We identified 28 grants with total awards to states ranging from \$1.5 million to over \$35 million that Missouri could qualify for and followed up with state agency officials to determine if they applied for them. *(See Appendix I, page 9, for a detailed discussion of the audit methodology.)*

State agencies have not pursued all available federal funding opportunities

Audit results identified five grant programs worth up to an estimated \$3.5 million² in potential funding that state agencies did not receive. These agencies lost the opportunity for these funds because they were not aware of the grants.

Table 1.1 lists these grants. State officials at the indicated agencies said they believed the state was eligible for the grants.

Table 1.1: Grants Agencies Did Not Know Were Available

Agency	Grant	Amount	Match Required ¹
Elementary & Secondary Education	Early Childhood Educator Professional Development	\$1,650,000	No
Mental Health	Health Care and Other Facilities	1,164,135	No
Public Safety	Executive Office of Weed and Seed	175,000	No
Public Safety	Gang Resistance Education and Training	100,000	No
Social Services	Child Abuse and Neglect Discretionary Activities	391,851	Yes
Total		\$3,480,986	

¹ State must match a percentage of the federal award amount
Source: CFDA website and state officials

Description of grants

- Early Childhood Educator Professional Development grant (CFDA 84.349) primarily provides training that will improve early childhood education and prevent children from encountering reading difficulties when they enter school.
- Health Care and Other Facilities grant (CFDA 93.887) objectives include constructing, renovating, expanding, or modernizing health care facilities and other health care related facilities. Department of Mental Health officials indicated there

² The grant award amounts possible were determined by taking the minimum amount for average grant awards noted in the CFDA.

was an eligible renovation project in state fiscal year June 30, 2002; however, the grant was not pursued because the agency was not aware of the program.

- Executive Office for Weed and Seed grant (CFDA 16.595) provides for a comprehensive, multi-disciplinary approach to combating violent crime, drug use, and gang activity in high crime neighborhoods.
- Gang Resistance Education and Training grant (CFDA 21.053) helps prevent youth crime, violence, and gang association.
- Child Abuse and Neglect Discretionary Activities grant (CFDA 93.670) objective is to improve the national, state, community, and family activities for the prevention, assessment, identification, and treatment of child abuse and neglect through research, demonstration service improvement, information dissemination, and technical assistance.

Methods for identifying potential grant awards are not entirely effective

Procedures for identifying and maximizing federal funding opportunities are inconsistent for each agency, as well as each division within the agencies. Five state agencies or units of agencies (Departments of Corrections, Health and Senior Services, Social Services, Natural Resources - Outreach and Assistance Center, and Public Safety - Missouri State Highway Patrol) have written procedures for staff to identify federal funding opportunities; however, the procedures are not complete and lack detail. While the Departments of Natural Resources-Outreach and Assistance Center and Public Safety-Missouri State Highway Patrol have written procedures, the other divisions within those agencies do not. All other agencies rely on staff to identify potential grants without providing written guidance.

With the exception of a few divisions, agencies assigned the task for searching for available grants as an additional duty to staff members. As a result, the search for available federal funding was subjected to competing priorities for the staff members' attention. Some divisions established a position of grants manager; however, the duties and responsibilities of the employee did not include pursuing grant opportunities.

While examining practices in other states, we noted an example of a strong centralized grants management office in Texas. The Texas State Grants Team (Grants Team) was established by the Texas legislature in 1995 to maximize federal and state funding and to alert entities throughout Texas about funding opportunities. The Grants Team operates with five professional staff who are responsible for coordinating with state agencies to develop a plan for:

- Using federal grant funds.
- Monitoring federal and state funding opportunities with special emphasis on funding opportunities the state is not pursuing.

- Providing grant writing assistance and training to state, local, nonprofit, and private individuals.

Each state agency is responsible for designating an employee to serve as the agency's federal funds coordinator to communicate with a member of the Grants Team. This is an additional duty for the designated employees in the agencies.

The Grants Team maintains and updates a website that is a compilation of information about current funding solicitations and is a source of funding opportunities for different agencies and entities. The Grants Team is also responsible for the Texas Review and Comment System (TRACS) established under Presidential Executive Order 12372, similar to Missouri's Federal Assistance Clearinghouse. The TRACS will review and comment on grants that do not fall under the Presidential Executive Order. In contrast, the Missouri Federal Assistance Clearinghouse no longer conducts research to assist state agencies with identifying grant opportunities.

With the limitation of resources caused by budget cuts, it may not be feasible or desirable to dedicate staff full time to searching and applying for federal grants or centralizing the search process. However, consistent guidance to staff and use of available tools such as the statewide revenue maximization contracts, described in the following section, would help minimize missed opportunities.

Statewide Revenue Maximization Contracts

In October 2002, the OA awarded contracts to two vendors to identify and maximize federal funding. The contracts included the following goals pertaining to maximizing federal revenue:

- Identify federal revenue enhancement opportunities for the state that exist under current federal statutes, regulations and/or policies for which the state is not currently maximizing.
- Develop and assist in implementing necessary changes to state plans, regulations, policies or procedures necessary to fully maximize federal revenue opportunities.
- Identify potential changes to federal statutes, regulations and/or policies that will maximize federal reimbursement to the state.

Although the revenue maximization contracts are available for all state agencies, only four agencies have used them as of January 2004. OA officials said they notified state agencies about the contracts during meetings and email notifications, but further indicated it is the agencies' responsibility to get involved. Our discussions with agency officials identified 18 of 43 agencies and/or divisions were not aware of the contracts. As of January 2004, five projects (involving four agencies) have been awarded under the revenue maximization contract and all projects are still in progress.

To increase participation, OA officials could conduct training or schedule meetings with the agencies to familiarize them with the contracts.

Budgetary constraints have reduced state resources

Because of state General Revenue Fund budget cuts, state matching funds needed for some federal programs were not available. As a result, officials at the Departments of Natural Resources and Public Safety stated federal grant funding totaling at least \$4.7 million for fiscal years 2004 and 2005 will be lost. The grants and amounts noted below are limited to state agency audit survey responses.

- Funding for the Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining grant (CFDA 15.250) was cut in the fiscal year 2004 state budget. The maximum federal funds available to the state were \$498,821 with the grant requiring a 50 percent match. General Revenue Fund monies available for the state match were reduced, resulting in the loss of \$414,188 in federal funds. As a result of this cut, the state was no longer operating a full coal program. When federal officials learned Missouri's funding had been cut, they discontinued Missouri's funding for the Abandoned Mine Land Program grant (CFDA 15.252). This action resulted in an additional loss of \$1.7 million in federal funding for a grant requiring no state matching funds.
- Due to General Revenue Fund reductions, the Department of Natural Resources is unable to take full advantage of funding opportunities under the National Cooperative Geologic Mapping Program grant (CFDA 15.810). Department officials said \$40,555 and \$23,049 will be lost for fiscal years 2004 and 2005, respectively. Department officials also indicated this grant has expanded and the amount of federal dollars available keeps increasing; however, the state is unable to pursue the full amount of federal funding available.
- The state program funded by the National Guard Civilian Youth Opportunities grant (CFDA 12.404) was eliminated in January 2003 because of the lack of state matching funds. The grant required a 40 percent state match and Department of Public Safety - Office of the Adjutant General officials said all funding for this program was eliminated as a result of General Revenue Fund budget cuts. Federal funds totaling \$849,339 and \$1,725,407 in fiscal years 2004 and 2005, respectively, will be lost.

Conclusions

State departments did not receive nearly \$3.5 million in federal grant money because officials were not aware of the grants. Procedures for identifying and maximizing federal funds are inconsistent for each department, as well as each division within the department. Further, most state departments assign the task of identifying federal funding opportunities as an additional duty to staff members, and did not provide written procedures. The federal revenue maximization contracts available to assist state departments in identifying federal revenue enhancement opportunities have been under utilized.

Recommendations

We recommend the Directors, Departments of Elementary and Secondary Education, Mental Health, Public Safety, and Social Services:

- 1.1 Follow up on the five grants identified in Table 1.1 as missed grant opportunities and apply for those still available.

We recommend the Commissioner, Office of Administration:

- 1.2 Ensure all state agencies are aware of the revenue maximization contracts. In addition, the OA should meet with representatives from each state agency to discuss the contracts and ensure each agency knows how the contracts could benefit them.
- 1.3 Ensure all state agencies are aware of the Federal Assistance Award Data System as a data source for identifying grants.

Department of Elementary and Secondary Education Response

- 1.1 *We concur with the recommendation and plan to partner with another entity to obtain the Early Childhood Educator Professional Development grant for the state in Fiscal Year 2005.*

Department of Mental Health Response

- 1.1 *This grant opportunity is no longer available. We will continue to identify and apply for applicable federal grants available in an effort to increase funding from federal revenue sources.*

Department of Public Safety Response

- 1.1 *You specifically pointed out two grants from the table you thought might be available for the Division. That information has been forwarded to our Federal Grants Coordinator to research, and we will certainly review any opportunities that can be undertaken using the available resources and personnel. As was discussed, the Division has suffered major cuts in personnel, and does not have a person working on grants full-time. In addition, the Division lost twenty of fifty-six enforcement personnel in the last two years making it very hard to undertake new tasks without additional personnel.*

Department of Social Services Response

- 1.1 *The Department of Social Services (DSS) is currently managing more than 70 federal grants with a combined value of \$4.9 billion. DSS is committed to researching all potential federal grant opportunities and aggressively pursuing those that compliment the direction, focus and needs of the programs it administers.*

Office of Administration Response

- 1.2 *OA believes it has exercised due diligence in notifying state agencies of the contract and instead believes this to be a communication issue within the state agencies. OA communicated the availability and content of the statewide revenue maximization contract through the statewide contract notification document that was issued to all state agencies' purchasing representatives. Additionally, the statewide revenue maximization contract was discussed in the Financial Management Advisory Committee (FMAC) and Purchasing Committee meetings.*
- 1.3 *We can do a one-time notification and place this information on the website. Beyond that there are no resources to ensure all state agencies are continually aware of the Federal Assistance Award Data System. In addition, OA will notify its Missouri Federal Assistance Clearinghouse agency contacts of the new federal Grants.gov Initiative, which provides a centralized on-line process to find and apply for grants.*

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of this audit were to (1) determine if the state is identifying and applying for the maximum amount of federal funding it is eligible to receive; (2) evaluate the policies, procedures, and practices state agencies use to identify and apply for federal funding; and (3) identify factors that hinder the state's pursuit of federal funding.

Scope and Methodology

Auditors conducted fieldwork during July 2003 through January 2004. The audit included:

- Analysis of federal obligations for formula and project grants data from the Federal Assistance Award Data System. This database, managed by the U.S. Census Bureau, documents the majority of federal grant awards flowing to the states and territories. Using this data, we accumulated obligations of grant awards to all states for the four quarters making up state fiscal year 2003 and compared those results to the same data for Missouri to identify potential grants the state may not be receiving. From this information, we established a database of grants that Missouri was not receiving. From this database, we selected grants for review using the following criteria:
 1. All grants with a total award to states of \$35 million or more.
 2. Grant with a total award to states between \$10 and \$35 million that did not require state matching dollars (100% federally funded).
 3. Grant with total award to states of less than \$10 million, requiring no state match and funding public health programs.

Details and objectives for the identified grants were obtained from the Catalog of Federal Domestic Assistance and, as necessary, federal officials responsible for the grants were contacted to evaluate Missouri's eligibility.

- A survey of state departments and agencies to determine the policies, procedures, and practices state agencies use to identify and apply for federal funds, and to determine whether any limitations have caused the state to forgo funding. We also interviewed officials from selected departments and obtained additional documentation to clarify survey responses when necessary. Discussions were also held regarding potential available grant funding the state was not receiving.
- Obtaining and reviewing audit reports from the states of California, Kansas and Virginia regarding maximization of federal funding. We contacted individuals involved with those

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audits to clarify audit procedures and results. Some potential grants Missouri did not receive were identified in the Kansas and Virginia audit reports.

- Interviewing representatives from the Texas State Grants Team in the state's Office of Budget, Planning and Policy to obtain an understanding of the unit's organization, purpose and results.
- Reviewing statewide contracts for the maximization of federal revenue and discussions with state agency officials that have used or are currently using the contracts.

Our analysis identified 28 grants Missouri appeared eligible to receive. Those grants were further reviewed.